

Message Text

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71

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SUBJECT: ANNUAL REPORT OF FIRA

1. SUMMARY: ITC MINISTER JEAN CHRETIEN TABLED IN PARLIAMENT ON NOVEMBER 1 ANNUAL REPORT FOR FOREIGN INVESTMENT REVIEW ACT, COVERING PERIOD APRIL 1, 1975 TO MARCH 31, 1976. REPORT DEVOTES ENTIRE CHAPTER TO ARGUMENTS THAT SCREENING PROCESS HAS HAD LITTLE ADVERSE EFFECT ON TOTAL INVESTMENT INFLOW, AND OTHER CHAPTERS ATTEMPT TO SHOW PROCESS HAS BROUGHT SUBSTANTIAL BENEFITS TO CANADA. END SUMMARY.

2. FY 1975/76 REPORT ON OPERATIONS OF FOREIGN INVESTMENT REVIEW ACT, RELEASED ON NOVEMBER 1, LISTS 159 FOREIGN INVESTMENT PROPOSALS RESOLVED DURING PERIOD, OF WHICH ONLY SIX WERE NEW BUSINESS PROPOSALS AND REST WERE TAKEOVERS. FOUR NEW BUSINESS PROPOSALS AND 110 TAKEOVERS ALLOWED, 22 TAKEOVERS DISALLOWED AND 23 TAKEOVER PROPOSALS WITHDRAWN.

3. OF 153 TAKEOVER PROPOSALS RESOLVED, OVER TWO-THIRDS (108) SUBMITTED BY U.S.-CONTROLLED FIRMS. OF THESE PROPOSALS, 83 WERE ALLOWED. NUMBER OF TAKEOVER PROPOSALS SUBMITTED BY U.S. FIRMS JUMPED FROM 55 IN FY 74/75, BUT SIMILAR PROPOSALS BY UNCLASSIFIED

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FIRMS OF OTHER COUNTRIES INCREASED ONLY SLIGHTLY, FROM 37 TO 45.

4. REPORT STRESSES SIGNIFICANT BENEFITS TO CANADA OCCURRING UNDER SCREENING PROCESS, AND, WITHOUT NAMING SPECIFIC COMPANIES INVOLVED, GIVES SEVERAL ILLUSTRATIONS OF COMMITMENTS BY FOREIGN FIRMS TAKING OVER CANADIAN BUSINESSES. REPORT TABULATES ALL PROPOSALS RESOLVED, BUT IN CASES OF DISALLOWANCE DOES NOT GIVE SPECIFIC REASONS.

5. IN CHAPTER DEVOTED TO IMPACT OF FIRA ON CAPITAL INFLOWS INTO CANADA, REPORT ARGUES THAT SCREENING PROCESS HAS BEEN "OF RELATIVELY MINOR IMPORTANCE IN DETERMINING THE AMOUNT OF THE INFLOW OF FOREIGN DIRECT INVESTMENT." IN TABULAR FORM, REPORT SHOWS THAT DIRECT INVESTMENT "HAS DECLINED SHARPLY SINCE 1971" (FROM C\$925 MILLION TO C\$425 MILLION), AND CONCLUDES THAT DIRECT INVESTMENT "IN 1975 PLAYED A RELATIVELY MINOR ROLE ... IN MEETING CANADA'S NEEDS FOR FOREIGN CAPITAL." HOWEVER, REPORT ESTIMATES REDUCTION OF C\$15 TO C\$20 MILLION OF DIRECT INVESTMENT CAUSED BY DISALLOWANCE OF PROPOSALS AND C\$4 TO C\$5 MILLION REDUCTION BY PROPOSAL WITHDRAWALS.

6. IN SAME CHAPTER, REPORT POINTS OUT THAT INVESTMENT PLANS OF FOREIGN CONTROLLED BUSINESSES ALREADY ESTABLISHED IN CANADA NOT REVIEWABLE BY FIRA AND THAT THESE FOREIGN CONTROLLED FIRMS PLANNING TO INCREASE CAPITAL OUTLAYS AT FASTER RATE THAN CANADIAN CONTROLLED FIRMS. (CITING ITC SURVEY OF APRIL 1976, REPORT CLAIMS THAT FOREIGN FIRMS IN MANUFACTURING INTENDED TO INCREASE OUTLAYS BY 33 PERCENT COMPARED TO 20 PERCENT FOR CANADIAN FIRMS). REPORT ALSO CITES USDOC SURVEY OF MARCH 1976 AND MCGRAW HILL STUDY OF AUGUST 1975 TO SHOW THAT "CANADA'S SHARE OF CAPITAL INVESTMENTS BY FOREIGN SUBSIDIARIES OF U.S. CORPORATIONS WOULD BE LARGER IN 1976 AND 1977 THAN IN ANY OF THE FIVE YEARS PRIOR TO THE ENACTMENT OF THE FOREIGN INVESTMENT REVIEW ACT."

7. COMMENT: REPORT IS CERTAIN TO DISPLEASE ULTRA-NATIONALISTS WHO WILL ARGUE THAT LARGE PERCENTAGE (71 PERCENT) OF FOREIGN INVESTMENT PROPOSALS ALLOWED IS NOT IN KEEPING WITH THEIR INTERPRETATION OF INTENT OF PARLIAMENT TO REDUCE FOREIGN CONTROL OF CANADIAN INDUSTRY. IN FACT, REPORT'S CHAPTER ON IMPACT OF ACT LIKELY PROVOKE KNEE-JERK ANGRY REACTIONS FROM UNCLASSIFIED

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CIC LEADERS.

8. REPORT'S FAILURE TO IDENTIFY SPECIFIC REASONS FOR REJECTIONS OF FOREIGN INVESTMENT PROPOSALS SHOULD ALSO PROMPT FRESH CRITICISM OF FIRA SECRECY. HOWEVER, ONE DETERMINING FACTOR IN DISALLOWING PROPOSALS DID SURFACE, I.E., WHETHER OR NOT FIRM BEING TAKEN OVER WAS CANADIAN OR FOREIGN CONTROLLED. FOR EXAMPLE, OF 22 TAKEOVER PROPOSALS DISALLOWED, 18 INVOLVED

ACQUISITION OF CANADIAN CONTROLLED BUSINESSES AND FOUR WERE
FOR ACQUISITION OF FOREIGN CONTROLLED FIRMS, TWO OF WHICH
WERE FOR SAME FIRM - APPLIANCE DIVISION OF WESTINGHOUSE
CANADA.
ENDERS

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